

SUPPORT FOR SMALL FARMERS THROUGH PROCAMPO

(ME-0213)

EXECUTIVE SUMMARY

Borrower:	Nacional Financiera, SNC (NAFIN)	
Guarantor:	United Mexican States	
Executing agency:	Department of Agriculture, Rural Development, Fisheries, and Food (SAGARPA)	
Amount and source:	IDB: (Ordinary Capital)	US\$ 500,000,000
	Local counterpart:	US\$ 980,700,000
	Total:	US\$ 1,480,700,000
Financial terms and conditions:	Amortization period:	25 years
	Disbursement period:	4 years
	Grace period:	4 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	Single Currency Facility
Objective:	The project's objective is to build the capacity of small-scale dryland farmers to make more efficient use of their resources in their productive operations.	
Description:	<p>The project will pursue this objective by way of the Farmers Direct Support Program (PROCAMPO), by funding advance payments of PROCAMPO allowances so they reach small farmers before they plant their crops, and increasing the certainty that such payments will be forthcoming in future seasons. The project's technical assistance component will help strengthen PROCAMPO's operations and environmental management sides.</p> <p>PROCAMPO payments are made to farmers post-planting, sometimes even at harvest time. Small farmers have been calling on the government to have PROCAMPO payments disbursed before they plant their crop, so they can use the funds in production activities and avoid high financial costs.</p>	

The project's beneficiaries are farmers legally cultivating eligible land during PROCAMPO's Spring-Summer (SS) rainfed crop season on plots of five or fewer hectares (over 2 million campesino households, encompassing some 10 million rural poor). The operation will have two components: (a) provide funding to deliver PROCAMPO payments in advance, before planting for the SS season, and (b) technical assistance to strengthen PROCAMPO management, assess its environmental impacts, analyze alternative operational approaches, and identify the uses to which beneficiaries put the payments they receive. SAGARPA will be responsible for executing the project, through ASERCA.

**The Bank's
country and
sector strategy:**

The proposed operation is closely tied to and in line with: (a) the Eighth Replenishment mandate to modernize and strengthen agriculture sectors (August 1994); (b) the Bank's rural development operational policy (OP-752, December 1994); (c) the Bank's strategy for agrifood development approved by the Board on 12 January 2000; and (d) the country paper of 5 January 1999, which sets forth the Bank's strategy for Mexico (paragraph 1.18).

**Environmental
and social
review:**

According to the 1996 household survey, 90% of the beneficiaries of the project live below the poverty line. PROCAMPO was designed to be environmentally neutral as far as natural resource conservation is concerned. The proposed operation will support an assessment of the Program's indirect environmental impacts and help lay the foundations for a possible complementary program for a transformation of production patterns, to heighten PROCAMPO's positive impact on the environment. This technical assistance subcomponent will be executed during year 1 of the project.

Benefits:

The project will improve the timing of PROCAMPO support payments and increase small farmers' certainty that they will be forthcoming, thereby improving their cash flow, lowering their financial costs and, as a result, boosting their productive capacity and net income.

Risks:

The fact that PROCAMPO is an ongoing program that already has budgetary appropriations provides some assurance that fiscal revenues will be available for the project. On the other hand, the project requires that part of PROCAMPO's budget line be disbursed before Spring-Summer crops are planted, i.e., during the first half of the year, which would alter ASERCA's pattern of expenditure over the fiscal year. In the first year of the project, in particular, there is a risk that budget funds might not arrive in time to cover the advances to project beneficiaries. This risk, which was originally anticipated in the project report, did not materialize. The resources required for project

execution were appropriately allocated, in terms of amount and timing, thereby allowing ASERCA to cover advances of the support payments to project beneficiaries for 2001.

Special contractual clauses:

Special conditions precedent to the first disbursement:

The first disbursement of the financing is subject to the presentation of evidence that: (i) NAFIN and the United Mexican States, through the Department of Finance, have signed an agreement containing, *inter alia*, the conditions under which the borrower will transfer the resources of the financing to the United Mexican States for project execution; and (ii) NAFIN and the executing agency have signed an agreement establishing, *inter alia*, SAGARPA's commitment to meet its obligations as executing agency and carry out the activities envisaged in the project (paragraph 4.1).

For disbursement of funds in Component 1, in year 2 of the project, evidence will have to be provided that the survey contemplated in subcomponent 2.4 on how PROCAMPO beneficiaries are using the support payments has been completed and processed (paragraphs 2.26 and 4.2).

Other conditions

Disbursement of funds will be subject to annual ceilings as described in paragraph 3.13.

With the Bank's acceptance, up to US\$100 million equivalent of the resources of the financing may be used to reimburse the executing agency for expenses under component 1 of the project incurred between 1 February 2001 and the date of approval of the project by the Board of Executive Directors (paragraph 4.4).

The Bank may also recognize, as part of the project's local counterpart resources, expenses under component 1 of up to US\$320 million equivalent incurred between 1 February 2001 and the date of approval of the project by the Board of Executive Directors (paragraph 4.5).

Poverty-targeting and social sector classification:

This operation qualifies as a social equity enhancing project, as described in the indicative targets for Bank activities mandated in the Eighth Replenishment report (document AB-1704). The operation also qualifies as a poverty targeted investment by virtue of head count and automatic sector classification (see paragraph 5.2). The borrower will not use the 10% additional financing.

Exceptions to Bank policy:

No exceptions to Bank policies are envisaged.

Procurement: The Bank's procedures will be followed for procurement of goods and services. International competitive bidding will be required for purchases of goods or equipment worth US\$350,000 or more and for consulting services costing US\$200,000 or more.